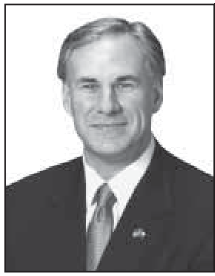


FEDERAL CREDIT CARD ACT IMPOSES NEW RULES

by Texas Attorney General Greg Abbott

LAST MAY, THE U.S. CONGRESS ENACTED THE Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit Card Act). The Credit Card Act is intended to protect card holders from arbitrary rate increases and other lending practices that Congress deemed objectionable. The new law imposes dramatic reforms and is intended to encourage debtors to manage credit responsibly.

Significant Provisions of the Act

Under federal law, creditors generally cannot increase a cardholder's interest rates or any fees during the first 12 months after the cardholder opens an account. There are limited exceptions to this prohibition: (a) if a cardholder fails to make a payment within 60 days after the due date; (b) the cardholder's promotion rate period expired – provided that the promotional rate lasted at least six months; or c) when the increase is tied to a variable indexed interest rate.

No over limit fees may be charged unless cardholders have given their credit card company express permission to allow transactions that exceed the cardholder's credit limit.

Credit card issuers that increase interest rates because of market conditions or credit risk must review each cardholder's account every six months. If changed market conditions or credit risk warrant reducing a customer's interest rate, the card issuer must decrease the interest rate.

Before credit card issuers make changes to the terms of the card, they must give the cardholder the option to cancel the card before those changes take effect. If the cardholder chooses to cancel their card, the closed account will not be considered a breach of the cardholder agreement. Creditors cannot require immediate repayment of the entire credit card account balance, but rather must give the cardholder repayment options – including structuring the balance to be paid over at least five years.

Before the new law's passage, credit card companies could raise their cardholders' interest rates to the default rate after a cardholder defaulted on another credit card. Today, however, credit card companies cannot use other issuers' credit reports to increase their own customers' rates – so a single default can no longer trigger across-the-board rate increases on all of a customer's credit card accounts.

If a credit card company raises a customer's interest rate after the first year, the higher rate will apply only to new charges cardholders make. The old, lower interest rate still applies to the pre-existing account balance.

Additionally, credit card companies are only allowed to charge interest on balances that customers accrued during previous billing cycles. They are not permitted to charge interest on charges that are incurred and paid in full each billing cycle. As a result, cardholders who pay off their balance each month should not have to pay any interest to their credit card companies.

Under the new law, credit card companies must mail or deliver credit card bills at least 21 days before the customer's payment is due. Previously, it was 14 days. The due date should be the same date each month. Further, payments made by a cardholder by 5 P.M. EST on the due date are to be considered paid on time.

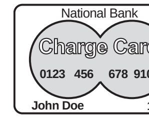
If the payment due date is on a weekend or holiday (when the company does not process payments), the law gives cardholders protection from late fees by extending the deadline to the following business day.

Credit card issuers are prohibited from charging additional fees for processing payment electronically – though there is an exemption for expedited payments arranged live through a service representative. As a result, customers can submit payments online or over the telephone without incurring additional cost.

The new law also imposes limits on credit card issuers' relationship with young customers. Anyone under 21 must show they are financially capable of servicing their debt. Those who cannot do so will need a co-signer in order to open a credit card account.

– June 2010

POINTS TO REMEMBER



CREDIT CARD ACCOUNTABILITY RESPONSIBILITY AND DISCLOSURE ACT OF 2009

- Creditors generally cannot increase credit cardholders' interest rates or any fees within 12 months of an account being opened.
- Interest rate increases after the first year only apply to new charges.
- Any changes to a credit card agreement's terms must give the cardholder the option to cancel the card before those changes take effect.
- Anyone under 21 must demonstrate they are able to make credit card payments, or they will need a co-signer in order to open a credit card account.

More information about provisions of the Credit Card Act:
www.creditcards.com
www.federalreserve.gov/creditcard/

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